



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

April 18, 2007

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**Before
The Foreign Affairs Subcommittee on Terrorism, Nonproliferation, and Trade
The Financial Services Subcommittee on Domestic and International
Monetary Policy, Trade, and Technology**

U.S. House of Representatives

**Isolating Proliferators and Sponsors of Terror: The Use of Sanctions and the
International Financial System to Change Regime Behavior**

Chairmen Sherman and Gutierrez, Ranking Members Mr. Paul and Mr. Royce, and distinguished members of the Subcommittees, thank you for this opportunity to discuss the use of sanctions and other financial tools as a means of combating proliferation and terrorism – two of the most deadly threats of our time.

The United States has marshaled its full range of powers to stop the proliferation of weapons of mass destruction and to isolate and undermine terrorist groups. As the past few years have demonstrated, sanctions and other financial measures administered by the Treasury Department can play a meaningful role in isolating and pressuring national security threats, when applied in an aggressive and targeted manner. Sanctions can have a powerful impact but they are not a silver bullet and cannot be pursued in isolation.

These measures work best when applied in concert with the diplomatic, intelligence, law enforcement, export, and military measures that our colleagues across the government are pursuing in such a dedicated manner.

Our testimony today will focus on the use and impact of financial measures, particularly in countering the threats posed by Iran and North Korea. We thank both of the Committees present for your strong leadership in confronting these threats and safeguarding our national security.

I. The Office of Terrorism and Financial Intelligence

Congress established the Office of Terrorism and Financial Intelligence (TFI) following the September 11, 2001 terrorist attacks, to marshal the Treasury Department's unique regulatory, enforcement, intelligence, and policy capabilities against threats to our financial system and national security. It is the only office of its kind in the world. Under the leadership of Under Secretary Stuart Levey, TFI incorporates five components. Appearing at this hearing are representatives of the Office of Terrorist Financing and Financial Crime (TFFC) and the Office of Foreign Assets Control (OFAC). We work closely with our TFI colleagues – the Office of Intelligence and Analysis (OIA), the Financial Crimes Enforcement Network (FinCEN), and the Executive Office of Asset Forfeiture (TOEAF) – to identify and disrupt the financial networks of our enemies as well as to safeguard the U.S. and international financial systems.

OFAC, with approximately 135 staff, is charged with administering and enforcing economic and trade sanctions in furtherance of U.S. foreign policy and national security goals. OFAC administers approximately 30 economic sanctions programs against international terrorists, proliferators of weapons of mass destructions (WMD), state sponsors of terrorism, narcotics traffickers, and other threats to our national security. Although these programs differ in terms of their scope and application, they all involve the exercise of the President's constitutional and statutory wartime and national emergency powers to impose controls on transactions and trade, and to regulate or freeze foreign assets that come within the jurisdiction of the United States.

TFFC, with a staff of approximately 30, is TFI's policy and outreach apparatus on terrorist financing, money laundering, financial crime, and sanctions issues. It develops and implements strategies, policies and initiatives to identify and address vulnerabilities in the U.S. and international financial system and to disrupt and dismantle terrorist and WMD proliferation financial networks, and it formulates and promotes policies domestically and internationally to combat terrorist financing and financial crime.

We in TFI collaborate on a regular basis with our counterparts across the Treasury Department, and with a broad range of federal agencies, including the Departments of State, Commerce, Homeland Security, Defense and Justice, including the Federal Bureau of Investigation and the Drug Enforcement Administration; the bank regulatory agencies; and other law enforcement and intelligence agencies. We also work very closely with the

private sector and our foreign counterparts abroad to identify and address threats to our collective security and the international financial system.

II. General Overview of Sanctions and Their Impact

Applying effective economic measures requires careful strategic, economic, legal, and policy analysis to ensure that the measures are calibrated to meet their goals and minimize unintended consequences. The objectives for these measures are typically to isolate the target as a means of inducing it to abandon harmful or threatening policies. Sanctions should not be expected to empty a regime's coffers and bring it to its knees. But they can alter the decision-making calculus of a regime by illustrating the costs that it faces in pursuing a dangerous or confrontational policy.

Because our tools are aimed at isolating our targets, we are most effective when we proceed multilaterally, either with a coalition or with the consensus of the United Nations. We work closely with the State Department and with our fellow finance ministries and central banks abroad to build consensus on financial measures.

At times, though, it is necessary for us to adopt unilateral sanctions. As it turns out, even when we initially act alone we can have a dramatic impact. There are two main reasons for this. First, because the United States is the world's leading banking and financial center and the dollar is the world's dominant currency, funds transfers often pass through U.S. banks. If a U.S. bank tries to send U.S. dollars somewhere in the world, the chances are that the money will pass through a U.S. bank. The result will be a funds freeze and a call to OFAC's compliance office. In this regard, it is important to remember that U.S. persons and U.S. branches situated abroad are subject to U.S. law and must comply with OFAC's sanctions as if they were in the United States.

The second contributor to our sanctions' effectiveness is that non-U.S. international financial institutions frequently implement our targeted sanctions voluntarily, even when they are under no legal obligation from their host countries to do so. These institutions may implement our sanctions because they do not want to engage in business with terrorist organizations or WMD proliferators, even if it is legally permissible. They may cooperate because of the reputational and business risks involved. Whatever the reason, this cooperation can provide a decisive "force multiplier."

We have learned that the key to obtaining such voluntary cooperation is directing our sanctions in a "targeted" fashion – namely, against those individuals or entities that have violated international codes of behavior, whether they be counter-proliferation, counter-terrorism, or anti-money laundering norms. This is why we take such pains to build the evidentiary packages needed to effectuate targeted sanctions as well as to provide a public explanation of the basis for our actions for the benefit of governments and private institutions around the world.

We are frequently asked how we measure the impact of sanctions or financial measures. Metrics can be difficult to come by, and can vary by context. An important measure of

impact is our success in disrupting or disabling key support nodes, such as key financial institutions, trade partners, or donors. Another metric may be the extent to which foreign financial institutions and centers take similar steps to isolate the target. Ultimately, the most revealing indicator will be how the target itself sees our measures. Although such information can be fragmentary and highly classified, we have seen high-ranking officials within terrorist or criminal organizations or regimes subject to our sanctions programs struggling to manage the effects of our measures and worrying about what may be coming next.

III. North Korea and Iran

In the aftermath of the September 11, 2001 attacks, the prospect of WMD falling into the hands of terrorists or state sponsors of terrorism has become an inescapably real threat. The Treasury Department has drawn upon its full range of authorities and influence to combat these threats.

Counter Proliferation Actions

President Bush issued Executive Order 13382 in 2005, adding powerful tools – a broad-based transactions prohibition and an asset freeze – to the array of options available to combat WMD trafficking. By prohibiting U.S. persons from engaging in transactions with entities and individuals targeted by the order, we can effectively deny proliferators and their supporters access to the U.S. financial and commercial systems, cutting them off from the benefits of our economy. These prohibitions have a powerful effect, as the suppliers, financiers, transporters, and other facilitators of WMD networks tend to have commercial presences and accounts around the world that make them vulnerable to exactly this kind of financial action, particularly since so many of the transactions are denominated in dollars.

In issuing Executive Order 13382, the President identified and targeted eight entities in North Korea, Iran, and Syria, thereby prohibiting U.S. persons from engaging in transactions with them and requiring any assets of those entities within their control to be frozen. The North Korean entities listed in the Annex to the order include Korea Mining Development Trading Corporation (KOMID); Korea Ryonbong General Corporation; and Tanchon Commercial Bank. Iranian entities in the Annex include the Atomic Energy Organization of Iran (AEOI); Aerospace Industries Organization (AIO); Shahid Hemmat Industrial Group (SHIG); and Shahid Bakeri Industrial Group (SBIG). The President then authorized the Secretary of State and the Secretary of the Treasury to designate additional proliferators of WMD and their supporters under the authorities provided by the Order.

Treasury has to date designated fifteen Iran-related and ten North Korea-related individuals and entities supporting Iran and North Korea's WMD and missile programs. One of the recent Iran-related designations was the fifth-largest Iranian state-owned financial institution, Bank Sepah, in January of this year. Bank Sepah has provided

extensive financial services to Iranian entities responsible for developing missiles capable of carrying weapons of mass destruction. It has been a key provider of financial services to SHIG and SBIG, two Iranian missile firms listed in the Annex to UN Security Council Resolution 1737 for their role in advancing Iran's ballistic missile programs. Bank Sepah also provides financial services to SHIG's and SBIG's parent entity, AIO, which has been designated as a proliferator by the United States for its role in overseeing all of Iran's missile industries.

Since at least 2000, Bank Sepah has also provided a variety of critical financial services to Iran's missile industry, arranging financing and processing dozens of multi-million dollar transactions for AIO and its subordinates. The bank has also facilitated business between AIO and North Korea's chief ballistic missile-related exporter, KOMID. The financial relationship between Iran and North Korea, as reflected in the business handled by Sepah, is indeed of great concern to the United States.

Our designation of Sepah under E.O. 13382, and the subsequent imposition of sanctions on Sepah by UN Security Council Resolution 1747, has had a significant impact. By cutting off Sepah from the U.S. and the international financial system, we have commercially isolated Bank Sepah and may have made it more difficult for Iran to finance some of its proliferation-related activities.

Counter Terrorism Actions

Treasury took action late last year to cut off a second Iranian bank from the U.S. financial system because of its ties to terrorist support – Bank Saderat Iran, one of the largest Iranian state-owned financial institutions. Saderat is used by the Government of Iran to transfer money to terrorist organizations, most notably Hizballah. Since 2001, for example, a Hizballah-controlled organization received \$50 million directly from Iran through Saderat. Iran and Hizballah also use Saderat to transfer money to other designated terrorist groups, such as Hamas, the PFLP-GC, and the Palestinian Islamic Jihad.

Treasury has also utilized Executive Order 13224 to target Iran's terrorist support networks. This Executive Order, issued immediately after September 11 attacks, has proven to be a powerful and flexible tool – it allows us to designate and block the assets of individuals and entities controlled by, or acting on behalf of, or providing support to named terrorist organizations, freezing any of the target's assets that are held by U.S. persons and preventing U.S. persons from having any future dealings with them. To date, the United States has designated approximately 460 individuals and entities pursuant to E.O. 13224. We have used this tool, in close coordination with colleagues in Departments of State and Justice, to expose and disrupt the financial networks of terrorist groups including al Qaida, Hizballah, Hamas, Jemmah Islamiyya, and the GSPC, and to designate financiers and supporters in Southeast Asia, the Persian Gulf, the Horn of Africa, South America's Tri-Border Area, Europe, and the United States.

Engaging the Financial Community

In concert with the targeted measures we have taken, Treasury has engaged in unprecedented, high-level outreach to the international private sector that is focused on the potential for abuse of the financial system by Iran. Treasury officials have met with more than 40 banks worldwide to discuss the threat Iran poses to the international financial system and to their institutions. Secretary Paulson kicked off this effort last fall in Singapore, in discussions during the annual IMF/World Bank meetings, where he met with the executives from major banks throughout Europe, the Middle East, and Asia. Secretary Paulson, Deputy Secretary Kimmitt, Under Secretary Stuart Levey, and Assistant Secretary Patrick O'Brien have continued to engage with these institutions abroad, as well as in Washington and New York.

Through this outreach, we have shared information about Iran's deceptive financial behavior and raised awareness about the high financial and reputational risk associated with doing business with Iran. We share common interests and objectives with the financial community when it comes to dealing with threats to the financial system. Financial institutions want to identify and avoid dangerous or risky customers who could harm their reputations and business. And we want to isolate those actors and prevent them from abusing the financial system.

By partnering with the private sector, including by sharing information and concerns with financial institutions, we are increasingly seeing less of a tendency to work around sanctions. We are finding that even those institutions that are not formally bound to follow U.S. law pay close attention to our targeted actions and often adjust their business activities accordingly, primarily for two reasons. First, most bankers truly want to avoid facilitating proliferation, terrorism, or crime. These are responsible corporate citizens. Second, avoiding government-identified risks is simply good business. Banks need to manage risk in order to preserve their corporate reputations. Keeping a few customers that we have identified as terrorists, terrorist supporters, or proliferators and their supporters is not worth the risk of facing public scrutiny or a regulatory action that may impact on their ability to do business with the United States or the responsible international financial community.

As evidence of Iran's deceptive practices has mounted, financial institutions and other companies worldwide have begun to reevaluate their business relationships with Tehran. Many leading financial institutions have either scaled back dramatically or even terminated their Iran-related business entirely. They have done so of their own accord, many concluding that they did not wish to be the banker for a regime that deliberately conceals the nature of its dangerous and illicit business. It has been reported that many global financial institutions, have curbed dealings with Iran. In addition to complying with the global sanctions imposed against Bank Sepah through UN Security Council Resolution 1747, certain foreign banks have also stopped handling dollar transactions for Saderat, forcing Saderat to conduct its foreign exchange transactions in euros. Regardless of the currency, the core risk with Iranian business – that you simply cannot be sure that the party with whom you are dealing is not connected to some form of illicit

activity – remains the same. Scaling back dollar-business reduces, but does not eliminate, the risk.

As further evidence of the change in tide, a number of foreign banks are refusing to issue new letters of credit to Iranian businesses. And in early 2006, the OECD raised the risk rating of Iran, reflecting this shift in perceptions and sending a message to those institutions that have not yet reconsidered their stance. Additionally, many other companies have scaled back on their investments or projects in Iran, concluding that the risks of expanding operations in the country are too great. Multinational corporations have held back from investing in Iran, including limiting investment in Iran's oil field development. These companies have done their risk analyses, and they have realized that the Iranian regime's behavior makes it impossible to know what lies ahead in terms of Iran's future and stability. All of these developments have a mutually-reinforcing effect, producing a worldwide reevaluation of dealings with Iran.

This extensive and innovative private sector outreach, combined with our targeted sanctions and other diplomatic efforts of the U.S. Government, has paved the way for international pressure on the Iranian regime to stop its illicit activities. International partners who originally resisted the idea of applying pressure to Iran have reversed this position and now support pressuring the Iranian regime to renounce its support for terrorism and WMD proliferation and to comply with its international obligations. This reversal only occurred through balanced and targeted sanctions against Iran, coupled with strong and persistent diplomacy.

United Nations Security Council Resolutions 1737 and 1747

The impact of these efforts has been amplified and reinforced with the passage of UN Security Council Resolutions 1737 and 1747. Thanks to the tireless efforts of our State Department and other concerned countries, the UN Security Council unanimously passed Resolution 1737 on December 23, 2006, requiring governments worldwide to take steps to combat Iran's illicit activities, including freezing the assets of named entities and individuals associated with Iran's nuclear and missile programs, as well as the assets of entities owned or controlled by them. The resolution also requires states to prevent the provision to Iran of any financial assistance, or the transfer of any financial resources or services, related to the supply, sale, transfer, manufacture, or use of prohibited items associated with Iran's nuclear and missile programs. Several of the entities named in UN Security Resolution 1737, including the AEOI, SBIG, SHIG, Mesbah Energy Company, and Kalaye Electric Company, have already been designated by the United States.

UN Security Council Resolution 1747, unanimously adopted on March 24, 2007, builds upon the asset-freezing provisions found in UN Security Resolution 1737. The new resolution identifies additional Iranian entities and individuals for designation, some of which have already been publicly designated by the Treasury Department. Significantly, among these entities was Bank Sepah.

III. Safeguarding the Financial System from Terrorism and WMD Proliferation Threats by Identifying and Closing Vulnerabilities

In addition to disrupting and dismantling the financial networks that support terrorists and WMD proliferators through the use of targeted economic sanctions, Treasury has used its authorities to safeguard the domestic and international financial system from abuse by identifying and closing vulnerabilities that criminal organizations, terrorist organizations and their state sponsors, and WMD proliferators and their supporters could exploit. In the process, we have degraded the ability of state sponsors of terror and proliferators to access the international and U.S. financial system. In administering earlier economic sanctions programs, and more recently with respect to terrorist groups and WMD, we have worked with our interagency partners, international counterparts and directly with the private sector to advance this fundamental interest by pursuing a number of strategies, including:

- identifying typologies of terrorist and illicit financing that present systemic threats to the domestic and international financial system;
- strengthening and expanding international standards to address these vulnerabilities and to enhance transparency across the international financial system;
- facilitating compliance with international standards through comprehensive international anti-money laundering/counter-terrorist financing (AML/CFT) assessments and technical assistance;
- taking appropriate protective actions against those jurisdictions and financial institutions whose AML/CFT and enforcement deficiencies represent substantial threats to the domestic and international financial system; and
- conducting private sector outreach to the international banking and other financial service industries.

This comprehensive strategic approach, described in greater detail below, safeguards the financial system from abuse by effectively promoting transparency, particularly across those higher risk elements of the financial system. Such transparency in the financial system is essential in allowing financial institutions, law enforcement, regulatory and other authorities to identify sources and conduits of illicit finance, as well as those individuals and entities that comprise terrorist, WMD and criminal support networks.

Identifying such illicit behavior and terrorist and criminal support networks allows financial institutions and government authorities to adopt appropriate protective measures to prevent these nefarious elements from corroding the financial system. In turn, protective measures deny them access to the financial system, forcing terrorist organizations and proliferators and their supporters to adopt alternative financing mechanisms and support structures that present higher costs and greater risks. Finally,

the transparency created by our systemic efforts to protect the financial system from abuse is an essential pre-condition for developing and applying targeted financial measures to attack and disrupt specific threats to our national security, foreign policy and criminal justice interests.

Strengthening and Expanding International AML/CFT Standards

Because of the growing international nature of the financial system, we must work continuously with other financial centers around the world to establish and maintain effective international standards to protect the international financial system from various sources and conduits of illicit financing. In coordination with the interagency community, Treasury primarily advances this strategic objective through the Financial Action Task Force (FATF), and also supports the progressive development of international standards against terrorist and illicit financing at the United Nations (UN).

The FATF sets the global standard for combating terrorist financing and money laundering and provides us with a unique opportunity to engage our international counterparts in this effort. Treasury – along with our partners at State, Justice, Homeland Security, the Federal Reserve Board, and the Securities Exchange Commission – continues to assume an active leadership role in the FATF, which articulates standards in the form of recommendations, guidelines, and best practices. These standards aid countries in developing their own specific anti-money laundering and counter-terrorist financing laws and regulations that protect the international financial system from abuse.

Since before the terrorist attacks of September 11, 2001, we have consistently engaged the FATF to expand and strengthen these international standards to address the systemic vulnerabilities that terrorists and other criminals exploit, including through the development of Nine Special Recommendations on Terrorist Financing and the revision and strengthening of the FATF 40 Recommendations. Most recently, we have successfully engaged the FATF to adopt a new international standard to combat the illicit use of cash couriers, and we have enhanced the international standard for combating terrorist abuse of charities. We have also recently finalized a number of technical but critical aspects to the international standard governing the availability and integrity of originator information on cross-border wire transfers.

Reinforcing AML/CFT Framework to Isolate WMD Proliferators and their Support Networks

In February, we launched a discussion within the FATF of how the existing Anti-Money Laundering/Counter-Terrorist Financing (AML/CFT) international standards should be supplemented, amended or applied to address the vulnerabilities associated with WMD proliferation finance. Although there are a number of long-standing instruments and organizations to prevent and counter the proliferation of WMD, their means of delivery and related materials, as well as numerous export control regimes, there is a lack of international focus and no international standards related to preventing financing of illicit proliferation activity and to isolating WMD proliferators from the international financial

system. A FATF working group charged with matters related to terrorist financing and money laundering decided in February to hold a special session in May to discuss the issue of proliferation finance, and to consider whether the FATF should adopt guidance to assist countries in their efforts to counter WMD proliferation finance. This urgent work will focus, in particular, on guidance for countries on the implementation of sanctions and finance-related provisions in a growing number of UN Security Council Resolutions related to proliferation activities in North Korea and Iran, as well as the threat of non-State actors' ability to procure and use WMD. In addition, we will explore in the FATF the broader potential of applying the existing framework of the AML/CFT international standards against WMD proliferation finance, beginning with a focus on "typologies" to better understand the nature of this threat. This study will provide the foundation for a broad assessment of the types of actions countries could take to isolate WMD proliferators from the financial system.

These standard-setting efforts at the FATF create an international obligation and framework for countries to implement AML/CFT regimes that promote transparency and effectively protect the international financial system from various forms of illicit finance, including terrorist financing and WMD proliferation finance. This framework provides a basis for multilateral consideration of additional ways that we can effectively degrade WMD proliferators' ability to access and use the financial system, crippling their ability to finance their pursuit of WMD.

Taking Protective Action against Systemic Vulnerabilities

In those instances where jurisdictional or institutional deficiencies present ongoing systemic vulnerabilities that create substantial money laundering or terrorist financing threats to the international financial system, Treasury can take appropriate protective action under Section 311 of the USA PATRIOT Act. Section 311 authorizes Treasury to designate a foreign jurisdiction, foreign financial institution, type of account or class of transactions as a primary money laundering concern, thereby enabling Treasury to impose any one or combination of a range of special measures that U.S. financial institutions must take to protect against illicit financing risks associated with the designated target. These special measures range from enhanced due diligence, recordkeeping, and reporting requirements up to and including termination of any and all correspondent accounts or activities with the designated target.

Congress granted Treasury this powerful and flexible authority which has been utilized in a variety of ways to protect the U.S. financial system from money laundering and terrorist financing threats associated with three foreign jurisdictions and eight foreign financial institutions. On each of these occasions, our Section 311 designation has had a significant effect in protecting not only the U.S. financial system, but also the international financial system, as international financial institutions have taken independent protective financial actions in response to the systemic vulnerabilities associated with the designated target. In some instances, designation under Section 311 has even facilitated the development of rehabilitative measures that effectively addressed

the underlying systemic vulnerability such that withdrawal of the 311 designation has been warranted.

Case Study: Banco Delta Asia

The most well-known example of Treasury's use of Section 311 is the designation of the Macau-based Banco Delta Asia (BDA) as a primary money laundering concern in September 2005. At that time, Treasury issued a proposed rule, which was finalized last month, prohibiting U.S. financial institutions from opening or maintaining correspondent accounts for or on behalf of BDA. Treasury took this step to protect the U.S. financial system from BDA because of the bank's systemic failures to apply appropriate standards and due diligence, as well as its facilitation of unusual or deceptive financial practices by North Korean-related clients. These concerns were subsequently confirmed by an in-depth, 18-month-long investigation of BDA conducted with the cooperation of the Macanese authorities.

Abuses at the bank included the facilitation of several North Korean-related front companies that may have laundered hundreds of millions of dollars in cash through the bank. The final rule highlights the bank's grossly inadequate due diligence, which facilitated deceptive financial practices by these clients including:

- Suppressing the identity and location of originators of transactions and arranging for funds transfers via third parties;
- Repeated bank transfers of large, round-figure sums both to and from accounts held at other banks that have no apparent licit purpose; and
- The routine use of cash couriers to move large amounts of currency, usually U.S. dollars, in the absence of any credible explanation of the origin or purpose for the cash transactions.
- The provision of intermediary financial services on behalf of North Korean banks by two related business accountholders, which accounted for more than 30 percent of the bank's bulk cash turnover over a multiple year period. These services were provided at least in part to disguise the origins of the transactions. Bank documents reveal that Banco Delta Asia had knowledge of the relationships between the banks and these entities, willingly obscured the identity of the transacting institutions, and agreed to continue treating the accounts as business accounts, not banking accounts, despite activity consistent with banking.

In addition to protecting the U.S. financial system from the significant vulnerability that BDA represents, the Section 311 action has spurred improvements in Macau's regulatory environment. Following the BDA action, the Macanese authorities took substantial steps to strengthen Macau's anti-money laundering and counter-terrorist financing regime, notably by passing a new law to strengthen these controls and standing up the jurisdiction's first-ever Financial Intelligence Unit (FIU).

Perhaps most importantly, the action against BDA has had a profound effect, not only in protecting the U.S. financial system from abuse, but also in notifying financial institutions and jurisdictions globally of an illicit finance risk.

BDA is not, however, the only example of the strategic application of Section 311 by the Treasury Department. Section 311 also has been used, in combination with other authorities, to address the threat that Syria's problematic behavior poses to the United States. In addition to the use of targeted economic sanctions against Syrian entities involved in WMD proliferation, Treasury has taken action under Section 311 to protect the U.S. financial system against the Commercial Bank of Syria (CBS), which has been used by criminals and terrorists to facilitate or promote money laundering and terrorist financing, including the laundering of proceeds from the illicit sale of Iraqi oil and the channeling of funds to terrorists and terrorist financiers. In March 2006, Treasury issued a final rule, pursuant to Section 311, designating CBS as a primary money laundering concern and requiring U.S. financial institutions to close correspondent relationships with CBS. Consequently, prominent international financial institutions have begun to reassess their relationships with Syria and a number of Syrian entities.

Conducting Private Sector Outreach

In addition to the targeted economic sanctions and protective measures discussed above, Treasury has launched a comprehensive outreach campaign that includes efforts to educate the private sector about the potential for abuse by terrorists, state sponsors of terror and WMD proliferators.

Treasury launched this international private sector outreach effort by initiating private sector AML/CFT dialogues linking the U.S. banking sector together with those from the Middle East/North Africa (MENA) region and the Latin American region, with the support of relevant financial and regulatory authorities. The purpose of these dialogues is to:

- raise awareness of domestic and regional money laundering and terrorist financing risks, international AML/CFT standards and regional developments, and U.S. government policies and private sector measures to combat terrorist financing and money laundering;
- assess the impact of AML/CFT international standards and U.S. law and regulation on AML/CFT development and implementation in the U.S. and foreign banking and financial service industries; and
- strengthen development and implementation of effective AML / CFT measures, particularly in regions of strategic importance and jurisdictions that lack fully-functional AML/CFT regimes.

In collaboration with its interagency and regional partners, Treasury successfully facilitated the launch of the U.S.-MENA Private Sector Dialogue on AML/CFT with an

initial AML/CFT Conference in Cairo in March 2006. Bankers and financial and regulatory authorities from the U.S. and the region discussed a range of challenges associated with the development and implementation of effective AML/CFT jurisdictional and institutional measures. A follow-on conference at the Federal Reserve Bank of New York in December 2006 was equally successful.

Treasury has initiated a similar dialogue with the Latin American banking community, hosting a roundtable discussion of U.S. and regional interests at Treasury in June 2006 to help frame this initiative. Based on this roundtable discussion, Treasury assisted in organizing an inaugural United States-Latin America Private Sector Dialogue conference on AML/CFT in Bogota, Colombia last week. Private sector participants and regulators from both regions participated in the conference, where challenges in AML/CFT implementation were discussed.

This direct private sector outreach to the international financial community complements our other work to address vulnerabilities in the international financial system by providing a mechanism to explain our money laundering and terrorist financing concerns, assess and facilitate AML/CFT progress and implementation, and receive feedback on the effectiveness of our efforts from key regional participants in the international financial system.

Encouraging Multilateral Action

A significant part of Treasury's mission is also devoted to U.S. government efforts to secure international support and implementation of targeted economic sanctions and financial actions like those we have described. As we noted above, the effectiveness of these authorities is significantly enhanced when other countries support U.S. efforts by freezing terrorist assets in their own jurisdictions, and prohibiting their nationals from dealing with terrorists. In coordination with the Department of State, Treasury facilitates such action through a variety of activities, including by maintaining a dialogue with other countries regarding the financial actions that are needed to disrupt specific terrorist cells or networks. However, we are also working to strengthen other countries' capacity and ability to implement targeted economic sanctions.

Through the U.S. government's efforts with the European Union, the Financial Action Task Force, the G7 and others, we have succeeded in assisting other countries to develop national sanctions authorities similar to our own and to improve cooperation in implementing effective sanctions regimes. In many cases, countries have joined us in imposing sanctions on U.S.-designated individuals and entities, either independently or through action at the UN. We have seen an increase in the number of countries approaching the UN Security Council to seek the designation of terrorist supporters. This global designation program, overseen by the UN's 1267 Committee, is a powerful tool for global action against supporters of al Qaida and the Taliban. It envisages 191 UN Member States acting as one to isolate al Qaida's supporters, both physically and financially.

On the WMD proliferation front, the U.S. has taken initial steps to implement UNSCR 1540, UNSCR 1695, UNSCR 1718, UNSCR 1737 and 1747, but many countries have not. Treasury, in conjunction with the State Department and other agencies, has begun outreach initiatives on a variety of fronts to encourage other countries to fulfill these international obligations by developing and utilizing authorities similar to E.O. 13382 in their own jurisdictions. Alternatively, we are urging countries to consider how they may be able to use existing authorities to freeze WMD proliferators' assets and prohibit their nationals from having dealings with them. In addition to the initiative within the FATF discussed above, Treasury is working in a variety of fora to encourage additional attention to the problem of WMD proliferation finance:

- **G-7.** Treasury and State are engaging with G-7 Financial Experts counterparts to discuss the issue of WMD proliferation finance and determine what can be done to isolate WMD proliferators from the international financial system through multilateral action. The G7 was unified in its endorsement of the recent initiative to launch discussions of proliferation finance within the FATF. The G-7 Finance Ministers last week issued a statement commending the FATF on its commitment to examine the risks of weapons of mass destruction proliferation finance and calling for effective and timely implementation by countries of Chapter VII UNSCRs 1540, 1718, 1737 and 1747.
- ***Proliferation Security Initiative.*** Treasury is working with the State Department to encourage the more than 70 countries that participate in the Proliferation Security Initiative (PSI) to use financial measures to combat proliferation support networks. This initiative, which was established by the President in May 2003, aims to stop shipments of weapons of mass destruction, their delivery systems, and related materials worldwide. Treasury officials attended the PSI's High Level Proliferation Meeting in Warsaw, Poland in late June 2006 and were encouraged by the strong response to the U.S.-led discussion of ways in which countries could address the financial underpinnings of WMD proliferation. We plan to tap into the proliferation-related expertise the PSI's Operational Experts Group (OEG) offers as we study WMD proliferation finance within the FATF, and will keep the OEG informed of the steps we are taking to develop standards and best practices to counter the threat of WMD proliferation finance.
- ***Global Initiative.*** We will also work with the State Department support activities associated with the Global Initiative to Combat Nuclear Terrorism, announced by President Bush and President Putin in July. This initiative goes to the heart of the threat that is most concerning – the possibility that nuclear weapons could fall into the hands of terrorists – and opens up new possibilities for the effective use of financial authorities.

IV. Conclusion

Treasury – working closely with the State Department and the rest of the interagency – is playing an integral role in the Administration's strategy to combat proliferation and

terrorism. Our use of targeted financial measures to safeguard the U.S. financial system, along with outreach to the private sector, are indeed having an impact, particularly on the ability of Iran and North Korea to misuse the financial system to carry out their dangerous activities. Together with my colleagues at this table and throughout the government, we will continue to employ all of our resources and authorities to keep our country safe.

I look forward to working closely with you, other members of the Subcommittees, and your staff on these important issues. Thank you again for the opportunity to testify today.